

FDIC State Profile

Fall 2005

Rhode Island

Rhode Island's employment continues to expand following the 2001 recession.

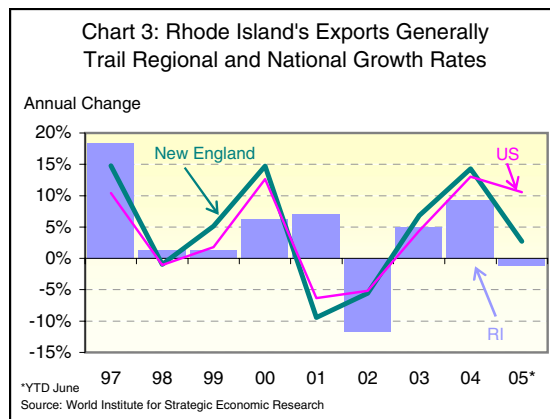
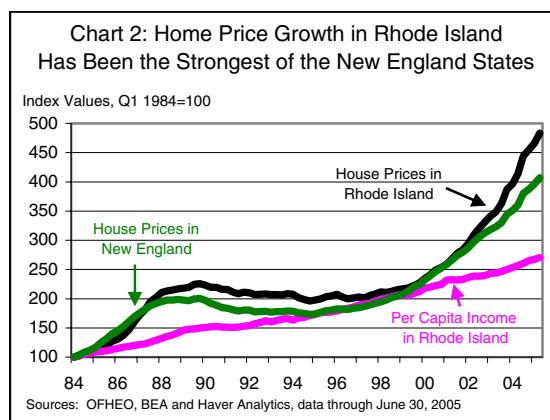
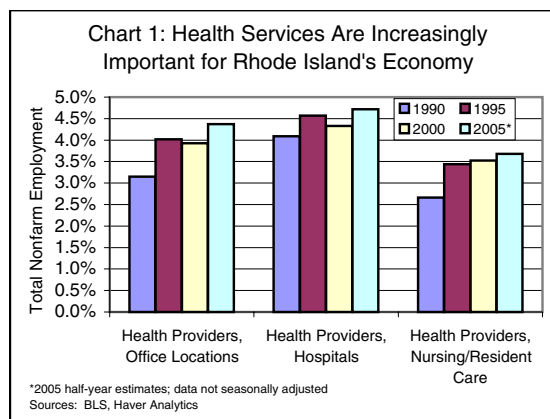
- Rhode Island lost nearly 7,000 jobs, or 1.4 percent of total nonfarm employment, during the recession. Those losses were reversed, however, during the first half of 2003. Since then, growth has been ongoing, amounting to a gain of 14,000 jobs, or almost 3.0 percent, from the previous peak.
- Unemployment in Rhode Island, however, has not declined significantly. It continues to hover at 5.0 percent, near its average for 2004. It is also near the national rate, which in August fell to just under 5.0 percent.
- The announcement by the Base Realignment and Closure Commission removing the Naval Submarine Base in nearby Groton, Connecticut from the list of recommended closures is good news for Rhode Island's economy.

Health care jobs have grown in importance in Rhode Island.

- Employment in health services has increased substantially over time and accounts for an increasing percentage of nonfarm employment (see Chart 1). Increases have occurred in each of the three major categories: medical offices outside of hospitals, hospitals, and nursing and resident care facilities.
- The share of employment in health services in the state is significantly above the regional average and much above the national. As of first half 2005, employment in health services was 12.8 percent in Rhode Island, compared to 11.5 percent for all of New England and 9.2 percent nationally. Rhode Island's percentage of employment in each health category has been above the regional average, and Rhode Island's percentage in hospital employment was second only to Massachusetts within New England.

House prices have continued to rise rapidly in Rhode Island.

- Since 1984, house prices in Rhode Island have increased much more than per capita personal income in the state (see Chart 2). Increases in house prices through second quarter 2005 averaged 7.7 percent per year—the highest rate in New England—compared to increases in per capita income that averaged 4.8 percent. Declining mortgage



rates contributed to the strength in house prices, as the 30-year conventional rate has ranged from a high of more than 13 percent in 1984 to a low during 2003 of 5.5 percent.

- While the overall increases in house prices have been spectacular, the annual performance has been highly variable. House prices in Rhode Island declined each year from 1990 to 1994, totaling almost 9.5 percent. On the other hand, over the most recent five years, house prices in the state have been extremely strong, increasing four times as rapidly as per capita income.
- Over the four quarters ended second quarter 2005, house prices rose by 16.7 percent in Rhode Island, which was the fastest in New England. House prices in the region rose by 13.0 percent, while nationally the increase was 13.4 percent. These increases—in the state, region, and nation—have been very impressive, but are unlikely to be sustained given the slower rate of per capita income growth and the upward trends in interest rates.

Rhode Island's exports declined in 2005.

- State exports of electronics have declined by 19, 25 and 30 percent, respectively, in the last three quarters. Although Rhode Island's exports are unusually diversified, the other sectors were not able to offset this decline (see Chart 3). The top three export sectors are miscellaneous manufacturing at 17 percent, computer and electronic products at 16 percent, and waste and scrap at 10 percent.
- Rhode Island's exports account for only 3 percent of gross state product, the lowest share in New England and less than half the national average of 7 percent. Nonetheless, their importance should not be underestimated as the indirect effects of export activity significantly magnify the economic impact.

Insured institutions in Rhode Island remain profitable, but mortgage lenders experience pressure on earnings.

- Rhode Island's insured institutions with assets less than \$3 billion remained profitable through the second quarter of 2005 but those with mortgage specialties¹ continued to report pressure on earnings (see Chart 4). These lenders have experienced fluctuating earnings in the last several years from unstable net interest income, noninterest income, and overhead expenses. Net interest margins have also been on the decline as funding costs increased.
- Other non-mortgage community institutions report relatively steady levels of net interest income, noninterest income and expenses, but experienced a decline in earnings in 2004 as gains on security sales declined.

¹Insured institutions with mortgage related assets greater than 50 percent of total assets.

Despite the decline in 2004, the non-mortgage lenders still rely heavily on gains on security sales to supplement earnings. Net interest margins declined in the last year as funding costs increased.

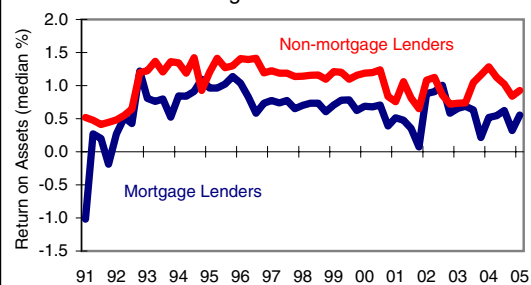
Rhode Island's insured institutions report low loan delinquencies.

- Loan quality has remained strong since the New England economy began to recover in the early 1990s. The median delinquent loan rate in both the mortgage lenders and other institutions with assets less than \$3 billion was below 1 percent as of June 30, 2005 (see Chart 5).

The hurricanes could increase energy costs and affect consumer spending.

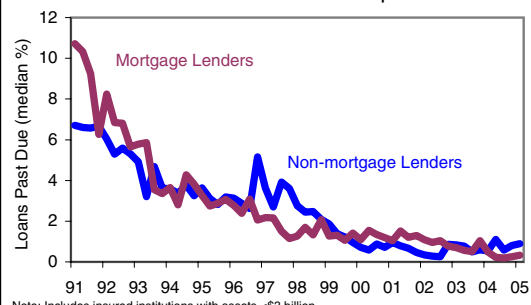
- The direct effects from Hurricanes Katrina and Rita on Rhode Island's economy were slight, but higher energy costs occasioned by the storms could be felt for some time. New England already has the highest residential cost per kilowatt hour of electricity in the country. This past year New England was the coldest region in the United States. Even before the hurricanes, a sharp increase in heating costs previously forecast for this year could reduce consumer purchases.

Chart 4: Rhode Island Mortgage Lenders Have Had Weaker Earnings than Other Institutions



Note: Includes insured institutions with assets <\$3 billion.
Source: FDIC, data through June 30, 2005

Chart 5: Rhode Island's Insured Institutions Report Near Record Low Loan Delinquencies



Note: Includes insured institutions with assets <\$3 billion.
Source: FDIC, data through June 30, 2005

Rhode Island at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	1.4%	0.9%	0.9%	1.0%
Manufacturing (11%)	-3.2%	-1.2%	-3.2%	-3.0%	-5.8%
Other (non-manufacturing) Goods-Producing (4%)	2.4%	1.4%	1.0%	0.1%	6.7%
Private Service-Producing (71%)	1.9%	2.1%	2.0%	1.8%	2.1%
Government (13%)	0.0%	0.2%	-1.1%	-0.6%	0.2%
Unemployment Rate (% of labor force)	4.7	4.4	5.3	5.1	5.4

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.8%	5.9%	6.4%	5.8%	3.8%
Single-Family Home Permits	-2.7%	-19.7%	5.7%	-2.6%	-9.2%
Multifamily Building Permits	-45.9%	127.1%	120.0%	10.8%	26.3%
Existing Home Sales	1.5%	6.0%	6.6%	13.6%	-1.2%
Home Price Index	16.7%	17.6%	18.7%	18.7%	14.6%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.19	4.02	4.07	3.84	4.78

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	14	14	15	15	15
Total Assets (in millions)	20,505	231,070	239,413	246,069	216,482
New Institutions (# < 3 years)	2	1	3	1	3
Subchapter S Institutions	2	2	2	2	2

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.54	0.53	0.76	0.57	0.62
ALLL/Total Loans (median %)	0.92	0.98	1.21	1.18	1.25
ALLL/Noncurrent Loans (median multiple)	5.68	3.79	2.70	3.54	2.56
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.01	0.01	0.03

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	11.91	9.88	10.01	10.63	12.35
Return on Assets (median %)	0.98	0.82	0.90	0.80	1.02
Pretax Return on Assets (median %)	1.33	1.13	1.36	1.23	1.47
Net Interest Margin (median %)	3.33	3.35	3.49	3.30	3.41
Yield on Earning Assets (median %)	5.46	5.32	5.13	5.19	5.48
Cost of Funding Earning Assets (median %)	2.13	2.00	1.86	1.90	1.85
Provisions to Avg. Assets (median %)	0.05	0.05	0.07	0.07	0.11
Noninterest Income to Avg. Assets (median %)	1.14	0.99	1.35	1.23	1.41
Overhead to Avg. Assets (median %)	3.25	3.27	3.59	3.50	3.43

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	65.5	57.0	62.2	60.9	65.6
Noncore Funding to Assets (median %)	24.3	22.0	20.1	22.8	22.5
Long-term Assets to Assets (median %, call filers)	33.7	30.9	27.8	28.1	28.5
Brokered Deposits (number of institutions)	2	3	2	3	3
Brokered Deposits to Assets (median % for those above)	5.9	5.2	3.6	6.5	0.4

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	27.1	41.0	36.8	27.9	30.4
Commercial Real Estate	106.5	105.4	82.3	88.1	83.7
<i>Construction & Development</i>	9.4	12.4	7.4	7.4	7.2
<i>Multifamily Residential Real Estate</i>	4.4	0.6	0.3	0.3	0.2
<i>Nonresidential Real Estate</i>	48.4	50.8	56.1	38.0	53.0
Residential Real Estate	322.4	400.6	344.6	360.6	309.2
Consumer	3.1	3.8	3.8	4.2	4.5
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Providence-New Bedford-Fall River, RI-MA	41	27,572	< \$250 million	8 (57.1%)
			\$250 million to \$1 billion	2 (14.3%)
			\$1 billion to \$10 billion	3 (21.4%)
			> \$10 billion	1 (7.1%)